

CITY OF MITCHELL

AUDIT REPORT

DECEMBER 31, 2008

**CITY OF MITCHELL
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Mitchell
Mitchell, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mitchell, South Dakota, as December 31, 2008, and for the year then ended, which collectively comprise the City of Mitchell's basic financial statements and have issued my report thereon dated May 4, 2009. My report was modified to include a reference to other auditors.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the "Housing and Redevelopment Commission of the City of Mitchell, SD", as described in my report of the City of Mitchell's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting on compliance or other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City of Mitchell's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood, that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board and information of the management of the City of Mitchell the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

However, as required by OMB Circular A-133 and SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David J. Hanson". The signature is fluid and cursive, with the first name "David" and last name "Hanson" clearly legible.

May 4, 2009

Gary L. Larson, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Mitchell
Mitchell, South Dakota

Compliance

I have audited the compliance of the City of Mitchell, South Dakota, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2008. The City of Mitchell's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Mitchell's management. My responsibility is to express an opinion on the City of Mitchell's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mitchell's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Mitchell's compliance with those requirements.

The financial statements contained in this report include, as a component unit, the financial transactions of the Housing Authority of the City of Mitchell, which is a legally separate entity that is required by Governmental Accounting Standards Board Statement Number 14 to be included as part of the financial reporting entity of the City of Mitchell. The Housing Authority

fulfills its own audit requirements including single audit requirements, apart from those of the City of Mitchell. I did not audit compliance applicable to any of the federal awards of the federal awards of the Housing authority, and, these federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the City of Mitchell. The Housing Authority was audited in accordance with the requirements of OMB Circular A-133 by other auditors and their report on compliance with requirements applicable to each major program and internal control over compliance with respect to federal programs is contained in their separately issued single audit report on the Housing Authority as of and for the year ended June 30, 2008.

My tests of compliance included tests relating to the use of Airport revenue and of the propriety of the disposition of airport funds or transfers to a sponsor. No instances of noncompliance of these requirements were noted. No funds were transferred out of the Airport Fund or otherwise paid to sponsors of the Airport Fund.

In my opinion, the City of Mitchell complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control over Compliance

The management of the City of Mitchell is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City of Mitchell's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

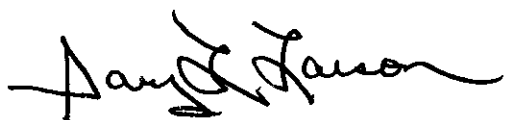
As discussed in paragraph three above, The Housing Authority of the City of Mitchell fulfills its own audit requirements, including single audit requirements, apart from those of the City of Mitchell. Accordingly, I did not perform tests of controls over compliance applicable to any of the federal awards of the Housing Authority. My report on internal controls over compliance is limited to the legal entity known as the City of Mitchell.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as described above.

This report is intended solely for the information and use of the governing board and management of the City of Mitchell, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, as required by OMB Circular A-133 and SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David J. Hanson". The signature is fluid and cursive, with a long horizontal stroke at the end.

May 4, 2009

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Mitchell
Mitchell, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mitchell, South Dakota, as of December 31, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Mitchell's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the "Housing and Redevelopment Commission of the City of Mitchell, SD", which represent 100% of the total assets as of June 30, 2008 and 100% of the total revenues for the year then ended of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to me, and my opinions on the financial statements, insofar as they relate to the amounts included for the "Housing and Redevelopment Commission of the City of Mitchell, SD" in the component unit column, are based on the report of the other auditors.

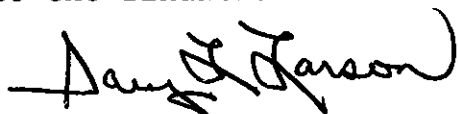
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mitchell, South Dakota, at December 31, 2008, the respective changes in financial position and cash flows where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated May 4, 2009 on my consideration of the City of Mitchell's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis budgetary comparison and OPEB Funding Progress information on pages 9 through 20 and 79 through 88 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Mitchell's financial statements taken as a whole. The Schedule of Expenditures of Federal Awards, which is required by the U. S. Office of Budget and Management Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the basic financial statements of the City of Mitchell. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



May 4, 2009

CITY OF MITCHELL MANAGEMENT'S DISCUSSION AND ANALYSIS 2008

This section of the CITY OF MITCHELL's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2008. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets from governmental and business-type activities increased by \$2,062,431 primarily due to an increase in taxes and other revenues.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental funds were \$1,547,022 more than the \$17,286,530 governmental program expenditures.
- The general fund reported an \$853,911 deficit of revenues over expenditures primarily due to an increase in general expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Water Fund, Sewer Fund, Airport Fund, Sanitation Fund, Corn Palace Fund and the Golf Course Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of City of Mitchell's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds and fiduciary component units)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems	Funds held for others; special assessments
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	Statement of net assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	None

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

- The government-wide financial statements of the City are reported in three categories:
- **Governmental Activities** -- This category includes the most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, sewer and sanitation systems are included here.
- **Component Units** -- The City includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this "component unit" is important because the City is financially accountable for them. Separate financial statements can be obtained from the City of Mitchell Housing Authority, Mitchell, SD or by calling (605-996-6811).

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** – These represent cash held for citizens as a result of special assessments on their property. The funds will be used for repaying bonds issued to raise money for the improvements (mainly curb, gutter and asphalt) to the citizen's property.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 3% between fiscal year 2007 and 2008—increasing by \$2,062,431 (See Table A-1). It should be noted that the city issued Tax Increment Financing Bonds in the amount of \$1,475,000 in 2008. \$3,405,000 of Sales Tax Refunding Bonds were issued resulting in interest saving of nearly \$1,000,000.00.

TABLE A-1	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and Other Assets	8,986,570	9,631,913	5,177,116	5,362,890	14,163,686	14,994,803
Capital Assets	32,573,520	38,313,709	51,822,381	47,164,333	84,695,901	85,478,042
Total Assets	41,860,090	47,945,622	56,999,497	52,527,333	98,859,587	100,472,845
Long-Term Debt Outstanding	21,362,220	21,621,417	6,730,926	6,218,902	28,093,146	27,840,319
Other Liabilities	697,513	525,143	176,593	152,617	874,106	677,760
Total Liabilities	22,059,733	22,146,560	6,907,519	6,371,519	28,967,252	28,518,079
Net Assets:						
Invested in Capital Assets Net of Related Debt	24,105,152	27,447,711	45,925,048	41,809,254	70,030,200	69,256,965
Restricted	1,678,966	1,918,064	684,883	475,172	2,363,849	2,393,236
Unrestricted	(5,983,761)	(3,566,713)	3,482,047	3,871,278	(2,501,714)	304,565
	<u>19,800,357</u>	<u>25,799,062</u>	<u>50,091,978</u>	<u>46,155,404</u>	<u>69,892,335</u>	<u>71,954,766</u>
Beginning Net Assets	8,448,442	19,800,357	48,986,894	50,091,978	57,435,336	69,892,335
Corrections Restated	7,154,792	4,451,683	1,153,600	(4,451,683)	8,308,392	
	<u>15,603,234</u>	<u>24,252,040</u>	<u>50,140,494</u>	<u>45,640,295</u>	<u>65,743,728</u>	<u>69,892,335</u>
Increase (Decrease) in Net Assets	4,197,123	1,547,022	(48,516)	515,409	4,148,607	2,062,431
% Change	27%	6%	-.1%	1%	6%	3%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components—the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of compensated absences payable, sales tax revenue and tax increment financing bonds payable and water and sanitation revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the city's assets and liabilities is its net assets.

Changes in Net Assets

The City's revenues totaled \$26,126,097 (See Table A-2.) 52% of the City's revenue comes from sales and property taxes, 35% comes from charges for good and services and the balance comes from state-shared revenues, grants, interest and miscellaneous revenues.

The City's expenses cover a range of services, with over one-half related to public safety (police and fire) and public works services (road maintenance, water system services, sewer system services and sanitation services). (See Figure A-4)

Figure A-3
CITY OF MITCHELL
Sources of Revenues for Fiscal Year 2008

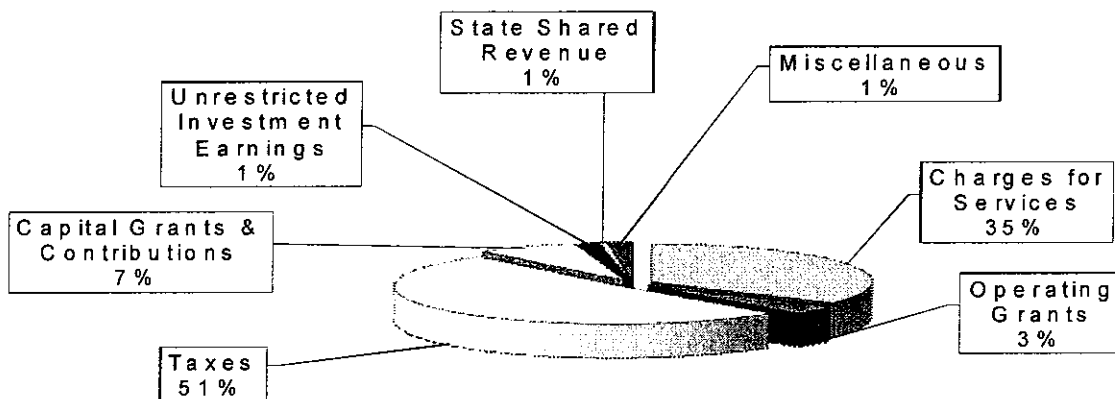
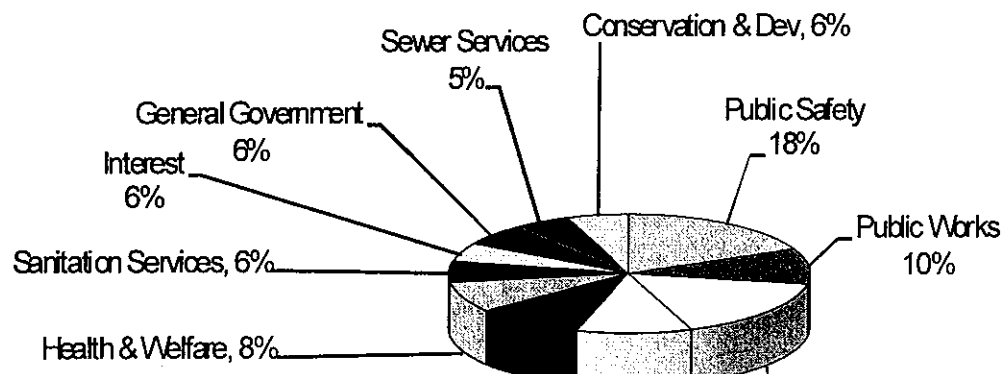


Figure A4
CITY OF MITCHELL
Functional Expenses for Fiscal Year 2008



Governmental Activities

Table A-2 and the narrative that follows considers the operations of the governmental activities. Total revenues for the governmental activities of the City of Mitchell for 2008 were \$18,909,879 while total expenses were \$17,286,530.

CITY OF MITCHELL

TABLE A-2 Changes in Net Assets	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues						
Program Revenues						
Charges for Services	2,307,356	2,586,883	6,556,959	6,738,626	8,864,315	9,325,509
Operating Grants	801,973	936,694			801,973	936,694
Capital Grants and Contributions	724,804	802,072		431,777	724,804	1,233,849
General Revenues Taxes	13,835,363	13,650,095			13,835,363	13,650,095
Revenue State Sources	432,548	398,707			432,548	398,707
Unrestricted Investment Earnings	335,778	144,699	85,158	45,815	420,936	190,514
Miscellaneous	169,162	390,729			169,162	390,729
Total Revenues	18,606,984	18,909,879	6,642,117	7,216,218	25,249,101	26,126,097
Expenses						
General Government	1,089,283	1,561,477			1,089,283	1,561,477
Public Safety	4,042,284	4,681,420			4,042,284	4,681,420
Public Works	2,428,146	2,805,365			2,428,146	2,805,365
Health and Welfare	1,782,006	2,105,753			1,782,006	2,105,753
Culture and Recreation	2,931,857	3,140,972			2,931,857	3,140,972
Conservation and Development	915,404	1,826,096			915,404	1,826,096
Interest	1,030,254	1,165,447			1,030,254	1,165,447
Water Services			2,347,071	2,280,776	2,347,071	2,280,776
Sewer Services			1,156,048	892,880	1,156,048	892,880
Sanitation Services			1,475,145	1,512,919	1,475,145	1,512,919
Other Services			1,902,996	2,090,561	1,902,996	2,090,561
Total Expenses	14,219,234	17,286,530	6,881,260	6,777,136	21,100,494	24,063,666
Excess (Deficiency) Before Transfers	4,387,750	1,623,349	(239,143)	439,082	4,148,607	2,062,431
Loss on Disposal of Assets						
Transfers	(190,627)	(76,327)	190,627	76,327	0	0
Increase (Decrease) in Net Assets	4,197,123	1,547,022	(48,516)	515,409	4,148,607	2,062,431
Ending Net Assets	19,800,357	25,799,062	50,091,978	46,155,704	69,892,235	71,954,766

Business-Type Activities

Revenues of the City's business-type activities were \$7,216,218, while total expenses were \$6,777,136. There was a substantial increase in Capital Grants and Contributions revenue from 2007 to 2008, while expenses decreased 2%.

The business-type/enterprise funds did transfer \$585,000 to the governmental activities/general fund to subsidize its operations, as follows: Water Fund-\$375,000, Sewer Fund-\$150,000, and Sanitation Fund-\$60,000. Other enterprise funds had transfers in totaling \$661,327 from the General Fund to subsidize their operations. Net transfers to the enterprise funds from the governmental funds were \$76,327.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains eighteen governmental funds - General, Park, Third Penny Sales Tax, E-911, Special Assessment Revolving Fund, RSVP/Transit, Nutrition, Library Fines, seven Capital Project Funds, five Tax Increment Districts and six business type funds – Water, Sewer, Airport, Sanitation, Corn Palace and Golf Course Funds.

None of the City's funds had any significant deficit or gain during the year except for the General Fund which had an increase of cash of approximately \$481,461 due to net transfers to other funds and flat or decreased sales tax revenues and other revenues.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

Other budget variances were as follows:

1. The Street budget was increased by \$671,784 for various construction projects and for lighting projects which were deferred to 2009 resulting in a net positive budget variance of \$1,043,681.
2. The Fire Department underspent its budget by \$148,719 due to the deferral of budgeted expenditures.
3. The Police Department underspent its budget by \$275,732 by deferring purchases until 2009.
4. The Debt Service budget was increased by \$3,587,679 due to the decision to retire \$3,405,000 of Sales Tax Revenue bonds by issuing a like amount of Refunding Bonds, having a much lower interest rate.

There were no material budget overdrafts.

CAPITAL ASSET ADMINISTRATION

At the end of 2008 the total the City had invested in a broad range of capital assets, including, land, buildings, various machinery and equipment was \$85,478,042, net of depreciation (see Table A-3.) This amount represents a net increase (including additions and deductions) of \$782,141, or 1%, over the past year.

Table A-3

	Governmental Activities		Business-type Activities		Total Dollar Change	Total Percentage Change
	2007	2008	2007	2008		
Land and Const. Work In Progress	2,519,323	2,623,502	\$ 3,019,371	\$ 3,473,495	\$ 558,303	10.00%
Buildings	7,523,811	13,633,349	9,948,860	9,409,291	\$ 5,569,969	32.00%
Improvements Other Than Buildings	17,090,868	16,904,185	35,300,636	30,968,004	\$ (4,519,315)	-9.00%
Machinery and Equipment	5,739,518	5,152,673	3,553,514	3,313,543	\$ (826,816)	-9.00%
					\$ -	
Total Capital Assets (Net)	32,873,520	38,313,709	51,822,381	47,164,333	\$ 782,141	1.00%

This year's major capital asset changes included:

Addition and/or improvement of the following capital equipment or projects:

- Ambulance - \$73,008
- Airport Improvements-\$346,483
- Dump Truck - \$96,631
- Soccer Complex - \$839,000
- RSVP Bus - \$74,828
- Highland Conference Center - \$202,612
- Hanson Avenue Improvements - \$227,269
- Railroad Avenue Improvements - \$561,234

The city is also committed to finishing the following projects that began in 2008:

Project Name	Project Authorization	Expended Thru 12-31-2007	Committed
I-90 Water Utilities	\$2,500,000	\$1,906,643	\$ 593,357
Water & Sewer Improve	\$2,669,000	\$ 306,833	\$2,362,167

The City's fiscal year 2009 capital budget projects spending for capital equipment or projects as follows:

- Minnesota Street Rehabilitation Project - \$250,000
- Soccer Complex - \$250,000
- Event Center - \$300,000
- Foster Street Lift Station Project - \$1,400,000

The City has no plans to issue additional debt to finance capital expenses or improvements at this time.

LONG-TERM DEBT

At year-end the City had \$27,075,781 in Sales Tax Revenue Bonds, Water Revenue Bonds and other long-term obligations. This is a decrease of 1% as shown on Table A-4 below.

	Activities		Activities		Change	Change
	2007	2008	2007	2008		
Compensated Absences	\$ 328,852	\$ 356,311	\$ 98,067	\$ 99,285	\$ 28,677	7.00%
O.P.E.B.	\$ -	\$ 56,787	\$ -	\$ -	\$ 56,787	
Capital Leases	3,108,268	2,911,340	144,596	71,485	(270,039)	-8.00%
TID & Sales Tax Rev Bond	17,925,100	18,296,979	0	0	371,879	2.00%
Water & Sanit. Rev. Bonds			5,752,736	5,283,594	(469,142)	-8.00%
Total Outstanding Debt and Obligations	21,362,220	21,621,417	5,995,399	5,454,364	(281,838)	1.00%

In accordance with G.A.S.B. 45, the City recorded an "Other Post Employment Benefit" (O.P.E.B.) of \$56,787 in 2008.

The City is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

The City refunded Sales Tax Revenue Bonds, Series 2000, having an 8.68% interest rate. The call and early payoff of these bonds resulted in an economic gain of \$972,783. The new debt of \$3,405,000 has an interest rate of 4%.

The City has outstanding \$6,370,000 in Sales Tax Revenue Bonds, Series 2000A. The bonds are secured and paid for from the General Fund. These bonds were used to construct the B-Y Rural Water Pipeline System and will be fully paid off on December 1, 2020.

The City has outstanding \$750,000 in Sales Tax Revenue Refunding Bonds, Series 2000B. The bonds are secured and paid for from the General Fund. These bonds were used to construct the "Streetscape" Main Street sidewalk renovation and lighting project and the Recreation Center renovation project and will be fully paid off on December 1, 2013.

The City has outstanding \$983,572 in Sales Tax Revenue Bonds, Series 2002. The bonds are secured and paid for from the General Fund. These bonds were used to reconstruct 2nd and 4th Streets and will be fully paid off on April 19, 2012.

The City has outstanding \$2,391,052 in Water Revenue Bonds-State Revolving Fund (SRF), Series 2002. The bonds are secured and paid for from the Water Fund. These bonds were used to construct the B-Y Rural Water Pipeline System and will be fully paid off on April 1, 2024.

The City has outstanding \$925,000 in Sales Tax Revenue Refunding Bonds, Series 2003. The bonds are secured and paid for from the Third Penny Sales Tax Fund. These bonds were used to renovate the Corn Palace and will be fully paid off on August 1, 2018.

The City has outstanding \$1,178,640 in Sanitation Revenue Bonds, Series 2004. The bonds are secured and paid for from the Sanitation Fund. These bonds are being used to construct a Landfill.

The city has outstanding \$965,352 in Water Revenue Bonds, Series 2006. These bear 7.65% interest and will be repaid by the Water Fund. Maturity is July, 2011.

The City owes \$2,911,340 in the form of an annual appropriation capital financing lease used for the Hitchcock Park Swimming Pool Construction Project. This will be repaid by the General Fund.

The City has two Regional Landfill Fund (RLF) Loans, one for \$352,519 and one for \$396,030. These were used to construct a new landfill and will be repaid by the Sanitation Fund.

The City has outstanding \$300,000 in Tax Increment Revenue Bonds (TID #5), Series 2005.

The City has outstanding \$320,129 in Tax Increment Revenue Bonds (TID #4), Series 2006.

The City has outstanding \$1,278,182 in Tax Increment Revenue Bonds (TID #7), Series 2006.

The City has outstanding \$2,043,836 in Tax Increment Revenue Bonds (TID #8), Series 2007.

The City has outstanding \$528,939 in Tax Increment Revenue Bonds (TID #9), Series 2007.

Two "TID" Tax-Increment District bonds were issued in 2008, totaling \$1,575,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City experienced an increase in total property valuation of \$30,448,165 from the prior year for a total 2008 valuation of \$560,547,999. The increase in property valuation (growth) allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$110,988. Under the state mandated property tax freeze, property taxes from one year to the next may also increase 3% or an amount based on the Consumer Price Index (CPI), whichever is lower. The CPI was 3.0%, which generated an additional \$100,182 of revenue for a total additional levy of \$211,069 for the year 2008 budget. The tax levy assessment for the CITY OF MITCHELL per thousand dollars in real property value was \$6.00, an increase of \$.05 per \$1,000 of valuation.

One of the primary sources of revenue to the City is taxable retail sales in the community (sales tax). The city experienced an increase in sales tax collections ending the year at 4.39% over the prior year. The city had budgeted for a modest 1.5% increase in sales tax revenue based on an economic assumption of below average annual sales and inflation increases.

There is approximately a 7.5% increase in the 2009 overall budget. The increases are composed of budgeted capital project expenses and equipment expenses. The Event Center project is budgeted at approximately \$300,000, the Soccer complex project is budgeted at \$250,000 and the Foster Street Lift Station Project is budgeted at \$1,400,000. Major budgeted equipment purchases are as follows: dump truck-\$90,000, backhoe-\$85,000, rubber tire roller-\$55,000, bobcat-\$35,000. The annual cost of living adjustment to salaries, increases in part-time wages, and increases in scheduled benefits for full-time employees also contribute to increases in budgeted expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT OFFICER

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the CITY OF MITCHELL- Finance Office, 612 North Main, Mitchell, South Dakota 57301.

**CITY OF MITCHELL
STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	PRIMARY GOVERNMENT	
	Governmental Activities	Business-type Activities
ASSETS:		
Cash	\$4,394,225	\$2,418,436
Investments	896,200	518,031
Accounts receivable	1,673,650	914,891
Inventories	249,774	271,822
Other assets	500,000	0
Restricted assets:		
Cash and cash equivalents	166,687	475,172
Investments	1,525,000	764,538
Deposits	226,377	0
Capital assets:		
Land and construction in progress	2,623,502	3,473,495
Other capital assets, net of depreciation	35,690,207	43,690,838
TOTAL ASSETS	\$47,945,622	\$52,527,223
LIABILITIES:		
Accounts payable	\$312,586	\$152,617
Other current liabilities	212,557	0
Noncurrent liabilities:		
Due within one year	1,856,681	613,709
Due in more than one year	19,764,736	5,605,193
TOTAL LIABILITIES	22,146,560	6,371,519
NET ASSETS:		
Invested in capital assets, net of related debt	27,447,711	41,809,254
Restricted for:		
Debt service	1,691,687	475,172
Risk pool capitalization contribution	226,377	0
Unrestricted	(3,566,713)	3,871,278
TOTAL NET ASSETS	25,799,062	46,155,704
TOTAL LIABILITIES AND NET ASSETS	\$47,945,622	\$52,527,223

The accompanying notes to financial statements
are an integral part of this statement.

TOTAL	Component Unit
\$6,812,661	\$671,663
1,414,231	149,978
2,588,541	15,980
521,596	0
500,000	15,788
641,859	0
2,289,538	83,152
226,377	0
6,096,997	20,239
79,381,045	1,087,762
<u>\$100,472,845</u>	<u>\$2,044,562</u>

\$465,203	\$6,506
212,557	24,153
2,470,390	6,099
25,369,929	299
<u>28,518,079</u>	<u>37,057</u>

69,256,965	1,108,001
2,166,859	0
226,377	83,152
304,565	816,352
<u>71,954,766</u>	<u>2,007,505</u>
<u>\$100,472,845</u>	<u>\$2,044,562</u>

**CITY OF MITCHELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$1,561,477	\$698	\$0
Public safety	4,681,420	336,283	81,844
Public works	2,805,365	176,018	0
Health and welfare	2,105,753	1,232,524	842,029
Culture and recreation	3,140,972	841,360	12,821
Conservation and development	1,826,096	0	0
*Interest on long-term debt	1,165,447	0	0
TOTAL GOVERNMENTAL ACTIVITIES	17,286,530	2,586,883	936,694
Business-type Activities:			
Water	2,280,776	2,529,345	0
Sewer	892,880	1,031,562	0
Sanitation	1,512,919	1,796,541	0
Corn Palace	1,441,695	839,357	0
Airport	232,334	62,514	0
Golf	416,532	479,307	0
TOTAL BUSINESS-TYPE ACTIVITIES	6,777,136	6,738,626	0
TOTAL PRIMARY GOVERNMENT	\$24,063,666	\$9,325,509	\$936,694
Component Unit:			
Housing and Redevelopment Commission	\$906,629	\$306,200	\$461,541

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on general long-term debt

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGE IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$8,841	(\$1,551,938)	\$0	(\$1,551,938)	\$0
0	(4,263,293)	0	(4,263,293)	0
467,592	(2,161,755)	0	(2,161,755)	0
146,974	115,774	0	115,774	0
178,665	(2,108,126)	0	(2,108,126)	0
0	(1,826,096)	0	(1,826,096)	0
0	(1,165,447)	0	(1,165,447)	0
802,072	(12,960,881)	0	(12,960,881)	0
			0	
			0	
37,723	0	286,292	286,292	0
46,071	0	184,753	184,753	0
0	0	283,622	283,622	0
0	0	(602,338)	(602,338)	0
347,983	0	178,163	178,163	0
0	0	62,775	62,775	0
431,777	0	393,267	393,267	0
			0	
\$1,233,849	(\$12,960,881)	\$393,267	(\$12,567,614)	\$0
\$166,573	\$0	\$0	\$0	\$27,685

**CITY OF MITCHELL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

TRANSFERS

Total General Revenues
and Transfers

Change in net assets

Net Assets-beginning, previously reported
Corrections (Note 17)

Net Assets-beginning, as restated

NET ASSETS-ending

The accompanying notes to financial statements are an
integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total	Component Unit
\$3,635,685	\$0	\$3,635,685	\$0
10,014,410	0	10,014,410	0
398,707	0	398,707	0
144,699	45,815	190,514	31,588
390,729	0	390,729	0
(76,327)	76,327	0	0
14,507,903	122,142	14,630,045	31,588
1,547,022	515,409	2,062,431	59,273
19,800,357	50,091,978	69,892,335	1,948,232
4,451,683	(4,451,683)	0	0
24,252,040	45,640,295	69,892,335	1,948,232
\$25,799,062	\$46,155,704	\$71,954,766	\$2,007,505

CITY OF MITCHELL
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$1,864,898	\$1,690,933	\$3,555,831
Investments	845,000	51,200	896,200
Taxes receivable-			
Delinquent	40,577	0	40,577
Accounts receivable	68,264	72,174	140,438
Special assessments receivable-			
Current	2,628	24,547	27,175
Delinquent	1,930	30	1,960
Deferred	0	94,404	94,404
Due from other governments	1,178,898	190,181	1,369,079
Supply inventory	222,425	27,349	249,774
Deposits	226,377	0	226,377
Restricted cash	39,047	127,640	166,687
Restricted investments	1,525,000	0	1,525,000
Notes receivable	500,000	0	500,000
TOTAL ASSETS	\$6,515,044	\$2,278,458	\$8,793,502
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$134,870	\$92,487	\$227,357
Deferred revenue	889,048	159,083	1,048,131
Total Liabilities	1,023,918	251,570	1,275,488
FUND BALANCES:			
Reserved for:			
Deposits	226,377	0	226,377
Debt service	1,564,047	127,640	1,691,687
Inventory	222,425	27,349	249,774
Long-term note	500,000	0	500,000
Unreserved:			
Designated for capital accumulations	336,500	0	336,500
Designated for 2009 budget	560,705	0	560,705
Special revenue funds	0	80,781	80,781
Capital project funds	0	40,000	40,000
Undesignated	2,081,072	0	2,081,072
Special revenue funds	0	1,313,825	1,313,825
Debt service fund	0	22,273	22,273
Capital project funds	0	415,020	415,020
Total Fund Balances	5,491,126	2,026,888	7,518,014
TOTAL LIABILITIES AND FUND BALANCES	\$6,515,044	\$2,278,458	\$8,793,502

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF MITCHELL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2008

Total Fund Balances-Government Funds	\$7,518,014
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

38,313,709

Long-term liabilities, including bonds payable, capital leases payable, accrued leave payable and accrued other post-employment benefits payable are not due and payable in the current period and therefore are not reported in the funds

(21,621,417)

Property taxes receivable and special assessments are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net assets, but in the funds statement of net assets, "available" (within a 30 day period) are offset with deferred revenue

164,116

Sales tax collected by the State on behalf of the City received after the "availability" period is deferred in the funds statement

884,015

Accrued interest on long-term debt is not recorded in the funds statement because it is on the modified accrual basis of accounting

(75,022)

Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets

<u>615,647</u>

Net Assets-Governmental Funds

<u><u>\$25,799,062</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MITCHELL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$3,553,987	\$75,333	\$3,629,320
General sales taxes	9,092,131	694,103	9,786,234
Gross receipts tax	190,944	0	190,944
Amusement taxes	1,536	0	1,536
911 telephone surcharge	0	279,436	279,436
Penalties and interest	6,397	0	6,397
Licenses and permits	142,545	0	142,545
Intergovernmental Revenue			
Federal grants	94,665	679,271	773,936
State grants	0	623,341	623,341
State shared revenues	466,377	0	466,377
County shared revenues	10,837	0	10,837
Charges for Goods or Services			0
General government	698	0	698
Public safety	17,675	0	17,675
Highways and streets	6,552	0	6,552
Health	0	572,048	572,048
Culture and recreation	0	821,674	821,674
Ambulance	660,476	0	660,476
Cemetery	101,796	0	101,796
Fines and Forfeits			
Court fines	39,172	0	39,172
Library	0	19,686	19,686
Miscellaneous Revenue			0
Interest earned	144,621	78	144,699
Special assessments	4,400	57,860	62,260
Contributions from private sources	8,841	280,921	289,762
Other	163,515	20,801	184,316
Total Revenue	\$14,707,165	\$4,124,552	\$18,831,717

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF MITCHELL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$121,936	\$0	\$121,936
Executive	27,238	0	27,238
Elections	5,778	0	5,778
Financial administration	1,006,514	0	1,006,514
Other	157,018	0	157,018
Public Safety			0
Police	2,479,808	0	2,479,808
Fire	1,241,099	0	1,241,099
Other protection	0	584,381	584,381
Public Works			0
Highways and streets	2,962,614	22,842	2,985,456
Cemeteries	223,780	0	223,780
Health and Welfare			0
Health	106,558	1,297,684	1,404,242
Humane society	74,430	0	74,430
Ambulance	538,615	0	538,615
Culture and Recreation			0
Recreation	217,409	1,362,643	1,580,052
Parks	0	864,591	864,591
Libraries	542,929	16,570	559,499
Conservation and Development			
Economic development	215,400	1,610,696	1,826,096
Debt Service	5,639,950	498,222	6,138,172
Capital Outlay	0	1,582,393	1,582,393
Total Expenditures	<u>\$15,561,076</u>	<u>\$7,840,022</u>	<u>\$23,401,098</u>
Excess (deficiency) of Revenues over Expenditures	(853,911)	(3,715,470)	(4,569,381)
Other Financing Sources (Uses):			
Transfers-in	594,458	2,342,700	2,937,158
Transfers-out	(2,788,200)	(225,285)	(3,013,485)
Proceeds of long-term debt	3,405,000	1,682,588	5,087,588
Sale of fixed assets	124,114	0	124,114
Net Change in Fund Balances	481,461	84,533	565,994
FUND BALANCE, JANUARY 1, 2008	<u>5,009,665</u>	<u>1,942,355</u>	<u>6,952,020</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$5,491,126</u></u>	<u><u>\$2,026,888</u></u>	<u><u>\$7,518,014</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF MITCHELL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Net Changes in Fund Balances-Total Governmental Funds	\$565,994
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	1,014,871
Governmental funds do not report the value of donated property. This value is reflected in the Statement of Activities.	44,718
In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds, if any, from the disposal of fixed assets are reflected	(71,083)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	4,912,637
Property tax revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue. Special assessments are reported in the period of the levy, but amounts not "available" are deferred in the funds statement	(55,283)
Sales tax collected by the State on behalf of the City remitted after the "period of availability" is reported as revenue in the Statement of Activities.	35,696
Governmental funds do not reflect the change in accrued leave, or other post-employment benefits, but the statement of activities reflects the change in these through expenditures.	(84,246)
Proceeds of long-term debt are reported as revenues in the funds statements, but are liabilities in the Statement of Activities.	(5,087,588)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net income of the internal service funds is reported with governmental activities.	211,218
The statement of activities reported accrued interest payable. This change did not effect the governmental funds because they are reported on the modified accrual basis of accounting	60,088
Change in Nets Assets of Governmental Activities	<u><u>\$1,547,022</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MITCHELL
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	ENTERPRISE		
	Water Fund	Sewer Fund	Sanitation Fund
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$124,912	\$143,886	\$1,604,712
Investments	500,000	0	18,031
Accounts receivable	374,143	188,431	252,003
Due from other funds	175,000	0	0
Due from other governments	0	0	0
Supply inventory	175,696	18,754	8,080
Total Current Assets	1,349,751	351,071	1,882,826
Noncurrent Assets:			
Restricted cash and cash equivalents	424,160	0	51,012
Restricted investments	0	0	764,538
Capital Assets:			
Land	154,027	148,092	550,373
Buildings	8,881,769	291,263	1,114,475
Improvements other than buildings	23,668,622	9,142,564	1,991,391
Machinery and equipment	3,154,401	4,290,052	1,362,915
Construction in progress	2,053,934	306,833	0
Accumulated depreciation	(9,281,548)	(4,898,637)	(1,270,617)
Total Noncurrent Assets	29,055,365	9,280,167	4,564,087
TOTAL ASSETS	\$30,405,116	\$9,631,238	\$6,446,913

The accompanying notes to financial statements are an
integral part of this statement.

FUNDS		
Other Funds	Total	Internal Service Fund
\$544,926	\$2,418,436	\$838,394
0	518,031	0
24,753	839,330	17
0	175,000	0
75,561	75,561	0
69,292	271,822	0
714,532	4,298,180	838,411
0	475,172	0
0	764,538	0
260,236	1,112,728	0
3,909,937	14,197,444	0
11,604,689	46,407,266	0
837,567	9,644,935	0
0	2,360,767	0
(11,108,005)	(26,558,807)	0
5,504,424	48,404,043	0
\$6,218,956	\$52,702,223	\$838,411

CITY OF MITCHELL
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	ENTERPRISE		
	Water Fund	Sewer Fund	Sanitation Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$50,343	\$29,675	\$30,031
Due to other funds	0	175,000	0
Incurred but not reported claims payable	0	0	0
Current portion of long-term debt	427,103	9,723	165,619
Total Current Liabilities	477,446	214,398	195,650
Non-current Liabilities:			
Bonds payable:			
Revenue	2,944,239	0	1,841,810
Accrued leave payable	18,257	11,883	10,699
Accrued landfill closure and postclosure costs	0	0	764,538
Total Non-current Liabilities	2,962,496	11,883	2,617,047
NET ASSETS			
Invested in capital assets, net of related debt	25,274,801	9,280,167	1,749,862
Restricted net assets restricted for:			
Revenue bond debt service	424,160	0	51,012
Unrestricted net assets	1,266,213	124,790	1,833,342
Total Net Assets	26,965,174	9,404,957	3,634,216
TOTAL LIABILITIES AND NET ASSETS	\$30,405,116	\$9,631,238	\$6,446,913

The accompanying notes to financial statements are an
integral part of this statement.

FUNDS

Other Funds	Total	Internal Service Fund
\$42,568	\$152,617	\$85,229
0	175,000	0
0	0	137,535
11,264	613,709	0
53,832	941,326	222,764
0	4,786,049	0
13,767	54,606	0
0	764,538	0
13,767	5,605,193	0
5,504,424	41,809,254	0
0	475,172	0
646,933	3,871,278	615,647
6,151,357	46,155,704	615,647
\$6,218,956	\$52,702,223	\$838,411

CITY OF MITCHELL
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Water Fund	Sewer Fund	ENTERPRISE Sanitation Fund
OPERATING REVENUES:			
Charges for goods and services			
securing payment of revenue bonds	\$2,529,345	\$0	\$1,796,541
Charges for goods and services	0	1,031,562	0
Health insurance contributions	0	0	0
Total Operating revenue	<u>2,529,345</u>	<u>1,031,562</u>	<u>1,796,541</u>
OPERATING EXPENSES:			
Personal services	575,129	355,833	511,359
Cost of sales	467,915	0	0
Other current expense	422,069	284,974	722,617
Depreciation	622,222	252,073	208,605
Total Operating Expenses	<u>2,087,335</u>	<u>892,880</u>	<u>1,442,581</u>
Operating Income (Loss)	<u>442,010</u>	<u>138,682</u>	<u>353,960</u>
Non-operating Revenue (Expense)			
Rent income	0	0	0
Interest earned	27,247	5,310	13,258
Interest expense	(193,441)	0	(70,338)
Total Non-operating Revenue	<u>(166,194)</u>	<u>5,310</u>	<u>(57,080)</u>
Net Income (Loss) before Capital Contributions and Transfers	275,816	143,992	296,880
Capital contributions	37,723	46,071	0
Transfers-in	0	0	0
Transfers-out	<u>(375,000)</u>	<u>(150,000)</u>	<u>(60,000)</u>
Change in Net Assets	<u>(61,461)</u>	<u>40,063</u>	<u>236,880</u>
NET ASSETS, BEGINNING, as previously reported	27,026,635	13,816,577	3,397,336
Adjustment (Note 17)	<u>0</u>	<u>(4,451,683)</u>	<u>0</u>
NET ASSETS, BEGINNING, as restated	<u>27,026,635</u>	<u>9,364,894</u>	<u>3,397,336</u>
NET ASSETS, ENDING	<u><u>\$26,965,174</u></u>	<u><u>\$9,404,957</u></u>	<u><u>\$3,634,216</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

FUNDS		
Other Funds	Total	Internal Service Fund
\$0	\$4,325,886	\$0
1,150,787	2,182,349	0
0	0	1,599,393
1,150,787	6,508,235	1,599,393
826,015	2,268,336	0
145,504	613,419	0
887,616	2,317,276	1,396,078
231,345	1,314,245	0
2,090,480	6,513,276	1,396,078
(939,693)	(5,041)	203,315
230,391	230,391	0
0	45,815	7,903
(81)	(263,860)	0
230,310	12,346	7,903
(709,383)	7,305	211,218
347,983	431,777	0
661,327	661,327	0
0	(585,000)	0
299,927	515,409	211,218
5,851,430	50,091,978	404,429
0	(4,451,683)	0
5,851,430	45,640,295	404,429
\$6,151,357	\$46,155,704	\$615,647

CITY OF MITCHELL
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE		
	Water Fund	Sewer Fund	Sanitation Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$2,467,905	\$1,000,456	\$1,804,257
Cash receipts for interfund services	24,691	8,388	0
Payments to employees for services	(572,725)	(355,896)	(510,711)
Payments to suppliers	(922,693)	(283,956)	(640,834)
Internal activities-payment to other funds	(2,957)	(1,343)	0
Net Cash Provided (Used) by Operating Activities	994,221	367,649	652,712
Cash Flows from Noncapital Financing Activities:			
Transfers from other funds	0	0	0
Transfers (to) other funds	(375,000)	(150,000)	(60,000)
Interfund loans	(94,258)	94,258	0
Rent received	0	0	0
Cash Flows from Capital and Related Financing Activities:			
Capital contributions	37,723	46,071	0
Purchase of capital assets	(313,249)	(409,505)	(19,743)
Debt principal paid	(386,522)	0	(151,404)
Debt interest paid	(193,441)	0	(70,338)
Cash Flows from Investing Activities:			
Redemption of investments	0	100,000	0
Cash received for interest	27,247	5,310	0
Net Increase (Decrease) in Cash and Cash Equivalents	(303,279)	53,783	351,227
Cash and Cash Equivalents Beginning of Year	852,351	90,103	1,304,497
Cash and Cash Equivalents End of Year	\$549,072	\$143,886	\$1,655,724
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$442,010	\$138,682	\$353,960
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	622,222	252,073	208,605
Disposed equipment	0	0	52,124
Changes in Assets and Liabilities:			
Receivables	(36,749)	(22,718)	7,716
Inventories	(9,111)	(18,754)	2,682
Accounts and other payables	(26,555)	18,429	26,977
Accrued leave payable	2,404	(63)	648
Net Cash Provided (Used) by Operating Activities	\$994,221	\$367,649	\$652,712
Noncash Investing, Capital and Financing Activities:			
Deletion of infrastructure (Note 16)	\$0	\$4,451,683	\$0

The accompanying notes to financial statements are an
integral part of this statement.

FUNDS		
Other Funds	Total	Internal Service Fund
\$1,126,034	\$6,398,652	\$0
0	33,079	1,613,240
(827,786)	(2,267,118)	0
(1,048,639)	(2,896,122)	(1,276,338)
(322)	(4,622)	0
(750,713)	1,263,869	336,902
661,327	661,327	0
0	(585,000)	0
0	0	0
230,391	230,391	0
272,422	356,216	0
(417,507)	(1,160,004)	0
(4,327)	(542,253)	0
(81)	(263,860)	0
0	100,000	0
0	32,557	7,903
(8,488)	93,243	344,805
553,414	2,800,365	493,589
\$544,926	\$2,893,608	\$838,394
(\$939,693)	(\$5,041)	\$203,315
231,345	1,314,245	0
0	52,124	0
(24,753)	(76,504)	13,847
(2,025)	(27,208)	0
(13,816)	5,035	119,740
(1,771)	1,218	0
(\$750,713)	\$1,263,869	\$336,902
\$0	\$4,451,683	\$0

CITY OF MITCHELL
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$410,186</u>
Total Assets	<u><u>\$410,186</u></u>
 LIABILITIES	
Amounts held for others	<u>\$410,186</u>
Total Liabilities	<u>410,186</u>
 NET ASSETS	<u>0</u>
 Total Liabilities and Net Assets	<u><u>\$410,186</u></u>

The accompanying notes to financial statements
are an integral part of this statement

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Mitchell consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent of the City.

Financial statements of the Housing and Redevelopment Commission of the City of Mitchell, SD are discretely presented in the accompanying financial statements under "component units". This financial information is as of and for the year ended June 30, 2008.

The component unit is a governmental unit formed to provide low income housing to residents of the City of Mitchell.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The criteria for including the component unit in the financial reporting entity is that of control over the appointment of members of the governing board of the component unit. The City Council appoints the board members of the component unit, thus having control over it. The City Council has the statutory authority to approve or deny any proposed Commission housing Projects (SDCL 11-7-49 through 49.1, 11-7-53 and 11-7-78) and to approve or disapprove the Housing Commission's intent to issue long-term debt, by disapproving a proposed project to be so financed. (SDCL 11-7-53.2)

The component unit is reported using the accrual basis for accounting.

Separate financial statements for the component unit can be obtained from the City of Mitchell Housing and Redevelopment Commission of Mitchell, South Dakota, or by calling (605)996-6811.

b. Basis of Presentation:

Government-wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. The statements distinguish between the governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1a above and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1 above.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the funds operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Park Fund - to account for charges for goods and services of the recreation center, ice skating rinks and other recreational facilities maintained by the City and the related costs of these facilities. This is not a major fund.

Entertainment Tax Fund - to account for a 3rd cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisition, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

Special Assessment Revolving Fund - to account for the accumulation of prior year's unused special assessment revenues. These funds will be used to finance future projects. This is not a major fund.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E-911 Fund - to provide an emergency "911" operator and related costs of this function. The fund is maintained by user fees collected from customers of telephone companies. This is not a major fund.

RSVP Fund - to account for grant proceeds of the Retired Senior Volunteer Program and related expenditures of this program. This is not a major fund.

Nutrition Fund - to account for grant proceeds of two federal nutrition grants and related expenditures of these programs. This is not a major fund.

Library Fund - to account for library fines and related expenditures. This is not a major fund.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

TIF Funds - to account for the property taxes which may be used only for the payment of the applicable TIF Bonds. The City has 6 of these debt service funds (TIF #4, #5, #7, #8, #9 and #10). None of the "TIF" funds are major funds.

Capital Project Funds - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations or other governments).

Soccer Fund - to account for financial resources to be used for reconstruction of a soccer field. This is not a major fund.

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hiland Fund - to account for financial resources used for the construction of infrastructure in a new area. This is not a major fund.

Westwood Capital Project Fund - to account for financial resources to be used for the construction of the Westwood project. This is not a major fund.

Railroad Avenue Fund - to account for financial resources to be used for reconstruction of the Railroad Revenue project. This is not a major fund.

Event Center Fund - to account for financial resources to be used for the construction of the Events Center project. This is not a major fund.

PROPRIETARY FUNDS:

Enterprise Funds - enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expensed incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sewer Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Sanitation Fund - financed primarily by user charges this fund accounts for the operation of the City sanitation system. This is a major fund.

Corn Palace Fund - financed by user charges and entertainment tax this fund accounts for the operation of the Corn Palace. This is not a major fund.

Golf Fund - financed by user charges this fund accounts for operation of the City golf course. This is not a major fund.

Airport Fund - financed by federal grants, state grants and user fees this fund accounts for operation of the City airport. This is not a major fund.

Internal Services Funds - Internal Services Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary government and its component units or to other governments, on a cost-reimbursement basis. The Health Insurance Fund is the only internal service fund maintained by the City. Internal service funds are never considered to be major funds.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

Agency Funds - Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The majority of the Agency Funds account for the activity of Special Assessment projects. Others are for deductions for "Flex plans." Agency funds are never considered to be major funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accruals basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Mitchell, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2008 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including employee health insurance, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Fund so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

**CITY OF MITCHELL
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems and lighting systems, acquired prior to January 1, 1980, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 1980 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend to useful life of a capital asset are also capitalized.

The total December 31, 2008 balance of capital assets for governmental activities includes approximately sixty percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total December 31, 2008 balance of capital assets for business-type activities includes approximately seventy percent for which costs were also estimates of the original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ All	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements: In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, revenue and "TIF" bonds payable and capital leases.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Program-specific operating grants and contributions
- These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions -
These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The City pools the cash resources of its funds for cash management purpose. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisitions, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose only investments are in securities described in (a) and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated as its fiscal agent.

The amount reported as deposits and investments includes \$764,538 of the Sanitation Fund which is being held in trust for the purpose of paying closure and postclosure costs relating to the City operated landfill. These assets are restricted as to use, and are not available to the City without prior approval of the State of South Dakota Department of Environment and Natural Resources.

The amount reported as deposits and investments also includes \$2,166,859 of the various funds restricted for debt service.

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

As of December 31, 2008, the City had the following investments.

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
U. S. Treasury Notes	N/A	2009	\$ 50,244

Mutual Funds:

U. S. Government Money Market Fund	Not rated	732,325
Total Investments - Primary Government		<u>\$ 782,569</u>

Component Unit:

Mutual Funds:

GS FST Treasury Fund	AAAm	\$ 151,367
Federated Prime Cash Obligations Fund	AAAm	81,763
		<u>\$ 233,130</u>

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

4. INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFFERED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

7. CHANGES IN CAPITAL ASSETS

A summary of changes in fixed assets for the year ended December 31, 2008 follows:

	Balance 1/1/08	Increases	Decreases	Balance 12/31/08
PRIMARY GOVERNMENT:				
Governmental Activities:				
Capital Assets				
Not being				
Depreciated:				
Land	\$ 2,519,323	\$ 104,179	\$ -	\$ 2,623,502
Capital Assets				
Being Depreciated				
Buildings	9,464,849	6,434,439	-	15,899,288
Improvements				
Other than				
Buildings	18,267,777	5,980,212	4,282,873	19,965,116
Machinery and				
Equipment	9,333,071	782,426	272,973	9,842,524
Totals	<u>37,065,697</u>	<u>13,197,077</u>	<u>4,555,846</u>	<u>45,706,928</u>
Less accumulated				
Depreciation for:				
Building	1,941,038	324,901	-	2,265,939
Improvements	1,176,909	1,884,022	-	3,060,931
Machinery and				
Equipment	3,593,553	1,298,188	201,890	4,689,851
Total	<u>6,711,500</u>	<u>3,507,111</u>	<u>201,890</u>	<u>10,016,721</u>

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>1/1/08</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/08</u>
Total Capital Assets being Depreciated- Net	\$30,354,197	\$9,689,966	\$4,353,956	\$35,690,207
Governmental Activity Capital Assets Net	\$32,873,520	\$9,794,145	\$4,353,956	\$38,313,709

The above includes corrections of previously stated balance of \$4,451,683. See note 17.

Depreciation expense was charged to functions as follows:

General Government	\$ 179,869
Public Safety	557,594
Public Works	413,699
Health and Welfare	269,805
Culture and Recreation	<u>377,726</u>
	<u>\$1,798,693</u>

	Balance <u>1/1/08</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/08</u>
Business-type Activities:				
Capital Assets Not being Depreciated				
Land	\$ 1,112,728	\$ -	\$ -	\$ 1,112,728
Construction in Progress	<u>1,906,643</u>	<u>454,124</u>	<u>-</u>	<u>2,360,767</u>
Total	<u>3,019,371</u>	<u>454,124</u>	<u>-</u>	<u>3,743,495</u>
Capital Assets Being Depreciated				
Buildings	\$14,520,297	\$ 139,075	\$ 461,928	\$14,197,444

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Increases	Decreases	Balance 12/31/08
Improvements				
Other than				
Buildings	\$51,630,680	\$ 513,475	\$5,736,889	\$46,407,266
Machinery and				
Equipment	<u>9,795,511</u>	<u>188,508</u>	<u>339,084</u>	<u>9,644,935</u>
Totals	<u>75,946,488</u>	<u>841,058</u>	<u>6,537,901</u>	<u>70,249,645</u>
Less accumulated				
Depreciation for:				
Building	4,571,437	272,091	55,375	4,788,153
Improvements	16,330,044	716,189	1,606,971	15,439,262
Machinery and				
Equipment	<u>6,241,997</u>	<u>325,965</u>	<u>236,570</u>	<u>6,331,392</u>
Total	<u>27,143,478</u>	<u>1,314,245</u>	<u>1,898,916</u>	<u>26,558,807</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>48,303,010</u>	<u>(473,187)</u>	<u>4,638,985</u>	<u>43,690,838</u>
Business-type Activity				
Capital Assets				
Net	<u>\$51,822,381</u>	<u>\$ (19,063)</u>	<u>\$4,638,985</u>	<u>\$47,164,333</u>

\$4,451,683 of the above deletions are attributable to corrections of the beginning balance. See note 17.

Depreciation expense was charged to functions as follows:

Water	\$ 622,222
Sewer	252,073
Sanitation	208,605
Corn Palace	79,995
Airport	112,886
Golf	38,464
	<u>\$1,314,245</u>

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL ASSETS (continued)

Construction Work in Progress at December 31, 2008 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended through 12/31/08</u>	<u>Committed</u>	<u>Required future financing</u>
I-90 Water Tower	\$2,500,000	\$1,906,643	\$ 593,357	\$ -
Railroad Avenue	625,000	164,832	460,168	-
Lift Stations	1,760,000	165,517	1,594,483	-
Hanson Avenue	<u>281,000</u>	<u>123,775</u>	<u>157,225</u>	<u>-</u>
Total	<u>\$5,166,000</u>	<u>\$2,360,767</u>	<u>\$2,805,233</u>	<u>-</u>

8. CHANGES IN COMPONENT UNIT CAPITAL ASSETS

A summary of changes in component unit capital assets for the year ended December 31, 2008 is as follows:

	<u>Balance 07/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/08</u>
Capital Assets Not being Depreciated:				
Land	\$ 20,239	\$ -	\$ -	\$ 20,239
Construction Work in Progress	<u>107,667</u>	<u>-</u>	<u>107,667</u>	<u>-</u>
Total	<u>127,906</u>	<u>-</u>	<u>107,667</u>	<u>20,239</u>
Capital Assets Being Depreciated				
Buildings	4,045,523	273,352	-	4,318,875
Equipment	<u>207,929</u>	<u>20,942</u>	<u>25,994</u>	<u>202,877</u>

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

8. CHANGES IN COMPONENT UNIT CAPITAL ASSETS (continued)

	<u>Balance</u> <u>07/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/08</u>
Totals	\$4,253,452	\$ 294,294	\$ 25,994	\$4,521,752
Less accumulated Depreciation:				
Buildings	3,102,713	158,510	-	3,261,223
Equipment	191,240	7,521	25,994	172,767
Totals	3,293,953	166,031	25,994	3,433,990
Total Capital Assets being Depreciated- Net	959,499	128,263	-	\$1,087,762
Component Unit Capital Assets- Net	<u>\$1,087,405</u>	<u>\$ 128,263</u>	<u>\$ 107,667</u>	<u>\$1,108,001</u>

9. LONG-TERM DEBT

A summary of changes in long-term debt follows:

<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
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Primary Government:

Government Activities:

Bonds Payable:

Revenue \$17,925,100 \$5,087,588 \$4,715,709 \$18,296,979 \$1,489,852

Financing

(Capital
Acquisition)

Leases 3,108,268 - 196,928 2,911,340 206,489

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Total Debt	\$21,033,368	\$5,087,588	\$4,912,637	\$21,208,319	\$1,696,341
Accrued Leave	328,852	175,439	147,980	356,311	160,340
O.P.E.B.	-	56,787	-	56,787	-
Total Governmental Activities	\$21,362,220	\$5,319,814	\$5,060,617	\$21,621,417	\$1,856,681

Business-type Activities:

Bonds Payable:

Revenue	\$ 5,752,736	-	\$ 469,142	\$ 5,283,594	\$ 497,545
Financing (Capital Acquisition)					
Leases	144,596	-	73,111	71,485	71,485
Total Debt	5,897,332	-	542,253	5,355,079	569,030

Accrued Compensated Absences-
Business-type

Funds	98,067	50,251	49,033	99,285	44,679
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Total Business-type

Activities	5,995,399	50,251	591,286	\$ 5,454,364	613,709
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TOTAL PRIMARY

GOVERNMENT	\$27,357,619	\$5,370,065	\$5,651,903	\$27,075,781	\$2,470,390
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Component Unit:

Accrued Compensated

Absences	\$ 22,827	\$ 5,726	\$ 22,155	\$ 6,398	\$ 6,099
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TOTAL COMPONENT

UNIT	\$ 22,827	\$ 5,726	\$ 22,155	\$ 6,398	\$ 6,099
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**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

During 2008 the City issued \$3,405,000 of 4% Series 2008 Refunding Bonds. The proceeds of there bonds were used to call and pay-off \$3,405,000 of 8.68% Series 2000 Sales Tax Revenue Bonds. This resulted in a saving of \$860,729 of interest over the life of the debt and an economic gain of \$972,983.

Debt payable at December 31, 2008 is comprised of the following:

Governmental Activities:

Revenue Bonds:

2003 Sales Tax, paid by the "Third Penny" Fund, interest rate 3%, final maturity of August 1, 2018	\$ 925,000
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Series 2000A Water Project Sales Tax Revenue Bonds, interest rates of 4.25% - 5.1% depending on length to maturity of the individual bonds. Final maturity is December 1, 2020. This debt is serviced by the General Fund.	6,370,000
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Series 2002 sales Tax revenue Bond, interest rate of 5.22%, final repayment due 2012. This is being paid by the General Fund.	983,572
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2005 TIF Loan, payable by a debt service fund. Terms are \$25,000 per year, including 6% interest; matures 2017	300,000
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Series 2000B Refunding Sales Tax Revenue Bonds, interest rate of 4.25% - 4.85% depending on length to maturity of individual bonds, final maturity is December 1, 2013. The Series 1993 Sales Tax Revenue bonds were called and paid in full by the proceeds of this issue. This debt is serviced by the General Fund.	750,000
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CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (continued)

Series 2008 Sales Tax Refunding Bonds, interest rates of 4%, final maturity is June 1, 2016. This debt is serviced by the General Fund.	\$3,222,321
2006 TIF Loan, payable by a debt service fund. Terms are for semi-annual payments of various amounts, including 7.5% interest; matures 2020	320,129
2007 Tax Increment Revenue Bond for TIF District No. 8 loan, payable by a debt service fund. Terms are for semi-annual payments of \$103,732, including 7.25% interest; matures 2026	2,043,836
Draws on Tax Increment Revenue Bonds, Series 2007 for the TIF District No. 9. The final loan will be for \$650,000. The exact terms of repayment have not been Determined yet, but the maturity will be 2027 with an interest rate of 7.75%. The loan will be repaid by a Debt Service Fund	528,939
2008 Tax Increment Revenue Bond for TIF District No. 10 loan, payable by a debt Service fund. Terms are for semi-annual payments at 5.49% interest, matures November 1, 2028	1,475,000
2008 7.25% Note Payable, due in 2011 but no later than December 31, 2027, payable by a debt service fund TIF #10, but subordinated to TIF #10 Bond above	100,000
Draws on Tax Increment Revenue Bonds, Series 2005. The final loan will be for \$3,371,514. The exact terms of repayment have not been determined yet, but the estimated maturity will be about 2020 with an interest rate of 3.25%. The loan will be repaid by a Debt Service Fund	<u>1,278,182</u>
Total Revenue Debt	<u>18,296,979</u>

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Financing (Capital Acquisition) Lease:

2005 Hitchcock Park Swim Pool Annual
Appropriations Capital Lease, due in semi-
annual installments of \$171,849, including
4.797% interest. Matures December 31, 2019.
This is being repaid by the General Fund \$ 2,911,340

The purchase price at the commencement of the
financing (capital acquisition) lease was:

Principal	\$3,650,000
Interest	<u>1,505,475</u>
	<u>\$5,155,475</u>

Other Post Employment Benefits	56,787
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Compensated Absences:

The liability for compensated absences
represents leave benefits earned as of
December 31, 2008. The compensated
absences in the General Long-term Debt
Account Group are currently paid from
the General Fund and Park Fund.

356,311

Total Governmental Activities Debt	<u>21,621,417</u>
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Business-type Activities:

Revenue Bonds:

2002 State Revolving Fund loan,
payable in quarterly installments
of \$50,909, including interest, final
maturity of April 1, 2024. This is being
repaid by the Water Fund.

2,391,053

2006 Water Revenue Bonds, due in annual
installments of \$327,226, including 7.65%
interest, matures July 5, 2011.

This will be repaid by the Water Fund	\$ 965,352
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**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

2005 Regional Landfill Fund loan,
due in semi-annual installments of
\$14,317, including 3% interest;
maturing in 2026. The loan will be
repaid by the Sanitation Fund 396,030

2004 Regional Landfill Fund loan, payable
in semi-annual payments of \$13,622,
including 3% interest. Matures 2025.
This will be paid by the Sanitation Fund 352,519

2004 State Revolving Fund Loan, payable
by the Sanitation Fund in quarterly
installments of \$23,071, including
interest of 3.5%, final maturity 2025.
This will be paid by the Sanitation Fund 1,178,640

Total Revenue Debt 5,283,594

Financing (Capital Acquisition) Leases:

Compactor, due in semi-annual payments of
\$36,789, including 3.8% interest, due in 2009.
Payments are made by the Sanitation Fund. 71,485

The purchase price at the commencement of the
financing (capital acquisition) lease was:

Principal	\$331,410
Interest	<u>36,480</u>
	<u>\$367,890</u>

Compensated Absences:

The liability for compensated absences
represents leave benefits earned as of
December 31, 2008. This liability will be
paid from the Enterprise Fund that
incurred the liability 99,285

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (continued)

Total Business Activity Debt	<u>\$ 5,454,364</u>
Component Unit Compensated Absences	<u>6,398</u>
GRAND TOTAL	<u><u>\$27,082,179</u></u>

The annual requirements to amortize all debt outstanding as of December 31, 2008 excluding compensated absences are as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2008

Governmental Activities:

Year Ending December 31,	Revenue		Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$1,489,852	\$ 918,636	\$ 206,489	\$137,209	\$1,696,341	\$1,055,845
2010	1,451,745	883,936	216,512	127,186	1,668,257	1,011,122
2011	1,559,337	813,174	227,023	116,675	1,786,360	929,849
2012	1,459,306	742,011	238,044	105,654	1,697,350	847,665
2013	1,364,831	673,579	249,600	94,098	1,614,431	767,677
2014-						
2018	6,412,168	2,352,998	1,441,954	276,538	7,854,122	2,629,536
2019-						
2023	3,044,487	877,313	331,718	11,982	3,376,205	889,295
2024-						
2028	<u>1,515,253</u>	<u>216,206</u>	<u>-</u>	<u>-</u>	<u>1,515,253</u>	<u>216,206</u>
Total	<u>\$18,296,979</u>	<u>\$7,477,853</u>	<u>\$2,911,340</u>	<u>\$869,342</u>	<u>\$21,208,319</u>	<u>\$8,347,195</u>

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (continued)

Business-type Activities:

Year Ending December 31,	Revenue		Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 497,545	\$ 230,583	\$ 71,485	\$ 2,092	\$ 569,030	\$ 232,675
2010	527,843	200,286	-	-	527,843	200,286
2011	560,168	167,960	-	-	560,168	167,960
2012	222,445	133,457	-	-	222,445	133,457
2013	230,800	125,104	-	-	230,800	125,104
2014-						
2018	1,290,860	488,654	-	-	1,290,860	488,654
2019-						
2023	1,552,852	226,662	-	-	1,552,852	226,662
2024-						
2028	<u>401,081</u>	<u>14,130</u>	<u>-</u>	<u>-</u>	<u>401,081</u>	<u>14,130</u>
TOTAL	<u>\$5,283,594</u>	<u>\$1,586,836</u>	<u>\$ 71,485</u>	<u>\$ 2,092</u>	<u>\$5,355,079</u>	<u>\$1,588,928</u>

As of December 31, 2008 there were \$479,771 of Special Assessments Bonds outstanding. These will be paid solely from Special Assessment proceeds collected from citizens. The City is not liable for repayment of this debt, but is only acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

10. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2008 were:

	Interfund Receivables	Interfund Payables
Enterprise Funds:		
Water Fund	\$ 175,000	\$ -
Sewer Fund	-	175,000

The above loan was made to compensate for a temporary cash overdraft position in the Sewer Fund at year-end.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

10. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES
 (continued)

Transfers for 2008 were as follows:

	IN	OUT
General Fund	\$ 594,458	\$2,788,200
Special Revenue Funds:		
Park	1,359,500	-
Entertainment tax	-	209,827
E-911	367,082	-
RSVP	52,118	-
Capital Projects Funds:		
Soccer Field	350,000	-
Highland	209,000	15,458
Event Center	5,000	-
Enterprise Funds:		
Water	-	375,000
Sewer	-	150,000
Sanitation	-	60,000
Corn Palace	609,827	-
Airport	<u>51,500</u>	<u>-</u>
	<u>\$3,598,485</u>	<u>\$3,598,485</u>

The reasons for the 2008 transfers were as follows:

To subsidize operations	<u>\$3,373,200</u>
To promote the City by promoting the Corn Palace, using Entertainment Tax	<u>\$ 209,827</u>
To close the Highland Fund	<u>\$ 15,458</u>

11. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

11. RETIREMENT PLAN (continued)

of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

General employees are required by the state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution.

State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007, and 2006 were \$476,943, \$458,273 and \$436,332, respectively, equal to the required contributions each year.

12. POSTEMPLOYMENT HEALTH CARE PLAN

Plan Description:

The City of Mitchell's Postemployment Health Care Plan is a single-employer defined benefit healthcare plan which provides medical benefits to eligible retirees and their spouses. The Plan is administered by the City of Mitchell.

Funding Policy:

The contributions of plan members and the City are established by City policy. The required contribution is based on projected "pay-as-you-go" financing requirements, with an additional amount to prefund benefits as determined annually by the City. For 2008, the City accrued a liability of \$56,787, which includes pay-as-you-go costs of \$26,832 and estimated prefunding of \$29,955.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

12. POSTEMPLOYMENT HEALTH CARE PLAN (continued)

Annual OPEB cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed thirty years.

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the Plan and changes in the City's net OPEB obligation to the Plan.

Annual required contribution	\$ 56,787
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB Cost	56,787
Contribution made	<u>-</u>
Increase in net OPEB obligation	56,787
Net OPEB Obligation, Beginning of year	<u>-</u>
Net OPEB Obligation, End of year	<u>\$ 56,787</u>

The City's annual OPEB cost is \$56,787 for 2008, of which the pay-as-you-go cost was 47.2% or \$26,832.

Funded Status-

The Plan is on a "pay-as-you-go" basis, therefore it is not funded as of December 31, 2008.

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

12. POSTEMPLOYMENT HEALTH CARE PLAN (continued)

Actuarial Assumptions-

The December 31, 2008 actuarial valuation was compiled using the "projected unit credit" actuarial cost method. The assumptions included a 4.5% rate of return (net of administrative expenses) and an annual health-care cost trend of 9% initially, grading to 5% over 8 years. The amortization period of the unfunded liability is 30 years.

13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2008, the City managed its risks as follows:

Employee Health Insurance:

The City has established a group health self-insurance fund to pay for medical claims of city employees and their covered dependents. Payments to the fund are actuarially determined and are to cover individual claims up to \$35,000 and any administrative costs relative to the processing of the claims. Medical claims exceeding this amount are covered through a private insurance carrier. An estimated liability for claims incurred but not paid is accrued based upon the past experience of the plan. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Changes in the aggregate liabilities of the Group Health Insurance Fund during 2008 were as follows:

Benefit Claims Payable, at beginning of year	\$ 103,024
Employees Health and Related Benefits Incurred:	
Attributable to Insured Events of	
the Current Year	1,396,078
Employee Health and Related Benefits Paid	<u>(1,276,338)</u>
Benefit Claims Payable, end of year	<u>\$ 222,764</u>

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

13. RISK MANAGEMENT (continued)

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

13. RISK MANAGEMENT (continued)

against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's first full year	50%
End of City's second full year	60%
End of City's third full year	70%
End of City's fourth full year	80%
End of City's fifth full year	90%
End of City's sixth full year	100%

As of December 31, 2008, the City has vested balance in the cumulative reserve fund of \$226,377.

The City carries a \$1,000 deductible for the automobile coverage and \$1,000 deductible for the general liability.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage for the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS

14. CLOSURE AND POSTCLOSURE CARE COST

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as a operating expense in each period based on landfill capacity used as of each balance sheet date. The \$764,538 reported as landfills closure and postclosure care liability at December 31, 2008, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the old landfill which was closed in 2005 and 8% of the new landfill opened in 2005. The City will recognize the remaining estimated cost of closure and postclosure care of \$1,087,000 as the remaining estimated capacity is filled. This landfill has an estimated remaining life of 40 years as of December 31, 2008. These amounts are based on what it would cost to perform all closure and postclosure care in 2008. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City has contributed \$782,569 to this trust as of December 31, 2008.

15. CONDUIT DEBT

In prior years the City of Mitchell has issued Industrial Revenue Bonds on behalf of certain local business. The amount outstanding as of December 31, 2008 was \$5,241,233.

The City has no obligation for repayment of this debt.

16. RESTRICTED NET ASSETS

The following table shows the net assets for other purposes as shown on the Statement of Net Assets:

**CITY OF MITCHELL
NOTES TO FINANCIAL STATEMENTS**

16. RESTRICTED NET ASSETS (continued)

<u>RESTRICTION</u>	<u>RESTRICTED BY</u>	<u>Amount</u>
Insurance	Insurance policy	\$ 226,377
Debt Service	Debt Covenants	<u>2,166,859</u>
		<u>\$2,393,236</u>

17. CORRECTIONS TO BEGINNING BALANCES

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Corrections to the classification of cost and accumulated depreciation of storm sewer infrastructure	<u>\$4,451,683</u>	<u>\$(4,451,683)</u>

CITY OF MITCHELL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$3,592,981	\$3,592,981	\$3,553,987
General sales and use taxes	9,000,000	9,000,000	9,092,131
Gross receipts taxes	155,000	155,000	190,944
Amusement taxes	3,000	3,000	1,536
Penalties and interest on delinquent taxes	6,000	6,000	6,397
Licenses and Permits	153,000	153,000	142,545
Intergovernmental Revenue			
Federal grants	473,200	503,788	94,665
State shared revenue	437,500	437,500	466,377
County shared revenues	21,000	21,000	10,837
Charges for Goods and Services			
General government	1,500	1,500	698
Public safety	14,450	14,550	17,675
Highways and streets	4,500	4,500	6,552
Ambulance	553,700	553,700	660,476
Cemetery	92,500	92,500	101,796
Fines and Forfeits			
Court fines	38,000	38,000	39,172
Miscellaneous Revenue			
Investment earnings	365,000	365,000	144,621
Special assessments	2,750	2,750	4,400
Contributions and donations from private sources	0	8,860	8,841
Other	53,503	53,503	163,515
Total Revenue	14,967,584	15,007,132	14,707,165

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

(\$38,994)

92,131

35,944

(1,464)

397

(10,455)

(409,123)

28,877

(10,163)

(802)

3,125

2,052

106,776

9,296

1,172

0

(220,379)

1,650

(19)

110,012

(299,967)

CITY OF MITCHELL
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
EXPENDITURES:			
General Government			
Legislative	\$108,500	\$125,271	\$121,936
Contingency	50,000	50,000	0
Amount tranferred	0	(33,000)	0
Executive	29,085	29,085	27,238
Elections	6,500	6,500	5,778
Financial administration	1,078,790	1,095,670	1,006,514
Other	137,219	190,279	157,018
Public Safety			
Police	2,665,036	2,755,540	2,479,808
Fire	1,357,564	1,389,818	1,241,099
Public Works			
Highways and streets	3,334,511	4,006,295	2,962,614
Cemeteries	216,277	254,777	223,780
Health and Welfare			
Health	114,085	112,085	106,558
Humane society	79,653	79,653	74,430
Ambulance	559,591	577,316	538,615
Culture and Recreation			
Recreation	237,390	285,827	217,409
Libraries	572,717	587,895	542,929
Conservation and Development			
Economic development and assistance (Industrial Development)	195,171	215,400	215,400
Debt Service	2,311,993	5,899,672	5,639,950
Total Expenditures	13,054,082	17,628,083	15,561,076

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$3,335
50,000
(33,000)
1,847
722
89,156
33,261

275,732
148,719

1,043,681
30,997

5,527
5,223
38,701

68,418
44,966

0

259,722

2,067,007

CITY OF MITCHELL
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
Excess of Revenue over (under) Expenditures	\$1,913,502	(\$2,620,951)	(\$853,911)
Other Financing Sources (Uses)			
Transfers-in	585,000	594,458	594,458
Transfers-out	(2,931,618)	(3,336,118)	(2,788,200)
Sale of fixed assets	10,000	36,121	124,114
Proceeds of long-term debt	0	3,405,000	3,405,000
Total Other Financing Sources (Uses)	(2,336,618)	699,461	1,335,372
Net Change in Fund Balances	(423,116)	(1,921,490)	481,461
FUND BALANCE-Beginning	5,009,665	5,009,665	5,009,665
FUND BALANCE-Ending	<u>\$4,586,549</u>	<u>\$3,088,175</u>	<u>\$5,491,126</u>

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$1,767,040

0
547,918
87,993
0

635,911

2,402,951

0

\$2,402,951

**CITY OF MITCHELL
OTHER POST EMPLOYMENT BENEFITS
FUND PROGRESS
DECEMBER 31, 2008**

Funded Status and Funding Progress

	Valuation Date 1-Jan-08
Actuarial Accrued Liability (AAL)	\$488,857
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	488,857
Funded Ratio	0.00%
Covered Payroll (active plan members)	6,483,429
UAAL as a Percentage of Covered Payroll	7.50%

See accompanying notes to required supplemental information are an integral part of this schedule.

CITY OF MITCHELL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP), except that capital outlays are reported separately in the GAAP statements, but are reported in the respective budgetary functions in the budgetary statements.

CITY OF MITCHELL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Grantor's Number</u>	<u>Expenditures</u>
Department of Transportation:			
Direct Federal Funding:			
Airport Improvement Program (Note 2)	20.106	N/A	\$329,158
Indirect Federal Funding:			
S. D. Department of Transportation:			
Highway Planning and Construction	20.205	N/A	7,928
Federal Transit Grant	20.500	N/A	189,584
Formula Grants other than Urbanized Areas	20.509	N/A	273,826
S. D. Department of Commerce and Regulation- State and Community Highway Safety	20.600	N/A	<u>4,800</u>
Total Department of Transportation			<u>805,296</u>
General Services Administration:			
Indirect Federal Funding:			
S. D. Federal Property Agency, Donation of Federal Surplus Personal Property (Note 3)	39.003	N/A	<u>3,621</u>
Department of Health and Human Services:			
Indirect Federal Funding:			
S. D. Department Transportation:			
Special Programs for the Aging Title III, Part B Grants for Supportive Service and Senior Center	93.044	N/A	17,553
Special Programs for the Aging Title III, Part C-Nutrition Services	93.045	N/A	106,938
Nutrition Services Incentive Program	93.053	N/A	<u>41,043</u>
Total Department of Health and Human Services			<u>165,534</u>
Corporation for National and Community Service:			
Community Service:			
Direct Federal Funding:			
Retired Senior Volunteer Program	94.022	N/A	<u>62,401</u>
Department of Justice:			
Indirect Federal Funding:			
S.D. Department of Corrections, Alcohol Safety Task Force	16.727	N/A	<u>9,438</u>

Department of Homeland Security:

Indirect Federal Funding:

S.D. Department of Public Safety

Office of Emergency Management

Staffing Adequate Fire and Emergency Response

(SAFER) (Note 2)

97.044

N/A

67,606

Total Department of Homeland Security

67,606

GRAND TOTAL

\$1,113,896

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2: This represents a Major Federal Financial Assistance Program.

Note 3: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City

**CITY OF MITCHELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. No material instances of noncompliance were noted by the audit.
- c. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- d. My audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
- e. The federal awards tested as major programs were:

Airport Improvement Program	CFDA 20.100
SAFER	CFDA 97.044

- f. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- g. The City of Mitchell did qualify as a low-risk entity.

2. FINANCIAL STATEMENT FINDINGS

NONE

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

CITY OF MITCHELL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

There were no audit findings or questioned costs for the year ended December 31, 2007.